

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Dynasty Fine Wines Group Limited

王朝酒業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 00828)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- Revenue decreased by 21% to approximately HK\$241.4 million (2021: HK\$306.0 million).
- Gross profit decreased by 24% to approximately HK\$92.4 million (2021: HK\$121.9 million).
- Profit attributable to the owners of the Company was approximately HK\$16.3 million (2021: HK\$32.8 million).
- Basic earnings per share were HK\$1.31 cents (2021: HK\$2.63 cents).

The board (the “**Board**”) of directors (the “**Directors**”) of Dynasty Fine Wines Group Limited (the “**Company**”) announces herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 together with comparative figures for the year ended 31 December 2021, prepared on the basis set out in Note 2 below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Notes	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Revenue from contracts with customers	3	241,363	305,950
Cost of sales of goods	4	<u>(149,010)</u>	<u>(184,019)</u>
Gross profit		92,353	121,931
Distribution costs	4	(44,434)	(48,428)
Administrative expenses	4	(44,880)	(51,801)
Net impairment reversal on financial assets		788	655
Other income, other gains and losses – net	5	<u>9,256</u>	<u>7,973</u>
Operating profit		13,083	30,330
Finance income	6	2,477	2,702
Finance costs	6	<u>(67)</u>	<u>(77)</u>
Finance income – net	6	<u>2,410</u>	<u>2,625</u>
Profit before income tax		15,493	32,955
Income tax expense	7	<u>–</u>	<u>(20)</u>
Profit for the year		<u>15,493</u>	<u>32,935</u>
Profit attributable to:			
Owners of the Company		16,333	32,811
Non-controlling interests		<u>(840)</u>	<u>124</u>
		<u>15,493</u>	<u>32,935</u>
		<i>HK\$ cents</i>	<i>HK\$ cents</i>
Profit per share attributable to the owners of the Company			
– Basic and diluted earnings per share	9	<u>1.31</u>	<u>2.63</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Year ended 31 December	
	2022	2021
	HK\$'000	HK\$'000
Profit for the year	15,493	32,935
Other comprehensive (loss)/income:		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	<u>(27,437)</u>	<u>9,438</u>
Total comprehensive (loss)/income for the year	<u>(11,944)</u>	<u>42,373</u>
Total comprehensive (loss)/income for the year is attributable to:		
– Owners of the Company	(9,576)	41,721
– Non-controlling interests	<u>(2,368)</u>	<u>652</u>
	<u>(11,944)</u>	<u>42,373</u>

CONSOLIDATED BALANCE SHEET*As at 31 December 2022*

		As at 31 December	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		67,187	73,993
Right-of-use assets		16,193	19,826
Other receivables	<i>10</i>	1,938	–
Investment in an associate		–	–
Deferred income tax assets		–	–
		<hr/>	<hr/>
Total non-current assets		85,318	93,819
		<hr/>	<hr/>
Current assets			
Trade receivables	<i>10</i>	8,627	13,801
Notes receivable	<i>11</i>	11,820	8,581
Other receivables	<i>10</i>	7,892	5,637
Prepayments	<i>10</i>	12,356	29,126
Inventories		238,369	250,565
Cash and cash equivalents		161,210	196,808
		<hr/>	<hr/>
Total current assets		440,274	504,518
		<hr/>	<hr/>
Total assets		525,592	598,337
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET (CONTINUED)*As at 31 December 2022*

		As at 31 December	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
Liabilities			
Non-current liabilities			
Lease liabilities		<u>126</u>	<u>757</u>
Current liabilities			
Trade payables	12	84,494	99,333
Contract liabilities	13	27,066	53,882
Other payables and accruals	12	167,456	184,524
Provision for contingent liabilities	14	–	487
Lease liabilities		<u>864</u>	<u>1,824</u>
Total current liabilities		<u>279,880</u>	<u>340,050</u>
Total liabilities		<u>280,006</u>	<u>340,807</u>
Equity			
Equity attributable to owners of the Company			
Share capital		124,820	124,820
Other reserves		1,143,456	1,169,365
Accumulated losses		<u>(1,038,457)</u>	<u>(1,054,790)</u>
Capital and reserves attributable to owners of the Company		229,819	239,395
Non-controlling interests		<u>15,767</u>	<u>18,135</u>
Total equity		<u>245,586</u>	<u>257,530</u>
Total equity and liabilities		<u>525,592</u>	<u>598,337</u>

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, whilst the principal office is Rooms E and F, 16/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The Company is an investment holding entity and the principal activities of the subsidiaries are manufacturing and sales of wine products.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) and disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622) (“**HKCO**”).

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for certain financial assets that were measured at fair values.

(iii) *New and amended standards adopted by the Group*

The Group has applied the following amendments or annual improvements for the first time for their annual reporting period commencing 1 January 2022:

- Annual improvements to HKFRS Standards 2018 – 2020 Cycle, and
- COVID-19-Related Rent Concessions beyond 30 June 2021.

The Group did not change its accounting policies or make retrospective adjustments as a result of adopting the above mentioned amended standards or annual improvements.

The Group also elected to adopt the following amendment early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to HKAS 12

The amendment listed above did not have any impact on the amounts recognised in prior periods and the current year, and is not expected to significantly affect the future periods.

(iv) *New standards and interpretations not yet adopted*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

In accordance with the Group's internal reporting, the chief operating decision-maker considers the business from product perspective and has determined the operating segments to be red wines, white wines and all other products primarily related to the sale of sparkling wines, brandy and ice wine. The executive Directors assess the performance of the operating segments based on gross profit. All revenue of the Group are from external customers.

	Red wines <i>HK\$'000</i>	White wines <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
2022				
Revenue from contracts with customers	<u>113,726</u>	<u>121,845</u>	<u>5,792</u>	<u>241,363</u>
Gross profit	<u>36,859</u>	<u>53,815</u>	<u>1,679</u>	<u>92,353</u>
Impairment allowance of inventories	(9)	(6)	(219)	(234)
Depreciation	(2,101)	(2,251)	(107)	(4,459)
Net impairment reversal on financial assets	<u>371</u>	<u>398</u>	<u>19</u>	<u>788</u>
2021				
Revenue from contracts with customers	<u>156,113</u>	<u>123,534</u>	<u>26,303</u>	<u>305,950</u>
Gross profit	<u>57,226</u>	<u>58,413</u>	<u>6,292</u>	<u>121,931</u>
Impairment allowance of inventories	(870)	(688)	(146)	(1,704)
Depreciation	(3,241)	(2,564)	(546)	(6,351)
Net impairment reversal on financial assets	<u>335</u>	<u>264</u>	<u>56</u>	<u>655</u>

A reconciliation of total segment gross profit to total profit before income tax is provided as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Gross profit for reportable segments	92,353	121,931
Distribution costs	(44,434)	(48,428)
Administrative expenses	(44,880)	(51,801)
Net impairment reversal on financial assets	788	655
Other income, other gains and losses – net	<u>9,256</u>	<u>7,973</u>
Operating profit	13,083	30,330
Finance income – net	<u>2,410</u>	<u>2,625</u>
Profit before income tax	<u>15,493</u>	<u>32,955</u>

3 SEGMENT INFORMATION (CONTINUED)

- (a) The amounts of total assets and liabilities for each reportable segment are not regularly provided to the chief operating decision-maker.
- (b) During the year, the following two (2021: three) external customers contributed more than 10% of total revenue of the Group. Those revenues were attributed to red wines and white wines segments.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	n/a	34,835
Customer B	n/a	32,857
Customer C	26,544	31,588
Customer D	26,450	n/a

- (c) The majority of sales of the Group were made within the PRC.

4 EXPENSES BY NATURE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials and consumables used	75,085	114,554
Changes in finished goods and work in progress	25,118	8,197
Employee benefit expenses	65,095	68,469
Consumption tax of domestic sales and other taxes	21,829	26,310
Advertising, marketing, and other promotion expenses	17,822	15,819
Transportation	8,011	8,572
Travelling expenses	4,172	4,918
Consultancy and professional fee	2,847	4,128
Auditors' remuneration	2,456	2,651
Depreciation of right-of-use assets	2,308	2,719
Depreciation of property, plant and equipment	2,151	3,632
Maintenance expenses	1,693	3,454
Warehousing expenses	1,268	1,531
Impairment allowance of inventories	234	1,704
Operating lease rental expenses	210	95
Other expenses	8,025	17,495
	<hr/>	<hr/>
Total cost of sales of goods, distribution costs, administrative expenses	<u>238,324</u>	<u>284,248</u>

5 OTHER INCOME, OTHER GAINS AND LOSSES – NET

	2022 HK\$'000	2021 <i>HK\$'000</i>
Write-off of payables with long ageing (a)	6,954	–
Government grants	884	5,469
Provision for compensation to employees	448	2,296
Others	970	208
	<u>9,256</u>	<u>7,973</u>

(a) In 2022, the Company performed a check on the payables that were unable to pay and not claimed over 5 years. Based on the checking result with certain evidence obtained, a total amount of HK\$6.95 million was written off according to the related laws of the PRC.

6 FINANCE INCOME – NET

	2022 HK\$'000	2021 <i>HK\$'000</i>
Finance income – interest income	2,477	2,702
Finance costs – interest paid for lease liabilities	(67)	(77)
	<u>2,410</u>	<u>2,625</u>

7 INCOME TAX EXPENSE

	2022 HK\$'000	2021 <i>HK\$'000</i>
Current income tax	–	20
Deferred income tax	–	–
	<u>–</u>	<u>20</u>

8 DIVIDEND

No dividend was declared or paid in 2022 and 2021.

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company,
- by the weighted-average number of ordinary shares outstanding during the financial year.

	2022	2021
Profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>16,333</u>	<u>32,811</u>
Weighted-average number of ordinary shares in issue (<i>'000</i>)	<u>1,248,200</u>	<u>1,248,200</u>
Profit attributable to the ordinary equity holders of the Company (<i>HK\$ Cents</i>)	<u>1.31</u>	<u>2.63</u>

(b) Diluted earnings per share

The Group had no dilutive instruments during the years ended 31 December 2022 and 2021 and the Group's diluted earnings per share equal to its basic earnings per share for the years ended 31 December 2022 and 2021.

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade receivables

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables from contracts with customers	21,603	34,858
Loss allowance	<u>(12,976)</u>	<u>(21,057)</u>
Trade receivables – net	<u>8,627</u>	<u>13,801</u>

The Group grants a credit period of 90 days (2021: 90 days) to its customers. The ageing analysis of the trade receivables is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Up to 90 days	8,503	1,035
More than 30 days past due	346	13,134
More than 90 days past due	203	321
More than 270 days past due	<u>12,551</u>	<u>20,368</u>
	<u>21,603</u>	<u>34,858</u>

The carrying amounts of the Group's trade receivables were principally denominated in Renminbi.

10 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(a) Trade receivables (continued)

(i) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amounts are considered to be the same as their fair values.

(ii) Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance decreased from HK\$21,057,000 to HK\$12,976,000 for the current year.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

	2022 HK\$'000	2021 HK\$'000
Non-current		
Deposits paid to electronic commerce platform	<u>1,938</u>	<u>–</u>
Current		
Taxes to be offset	2,914	3,570
Expenses to be reimbursed	1,951	–
Cash advance to employees and deposits	607	429
Other receivables	<u>3,557</u>	<u>2,995</u>
	9,029	6,994
Less: Loss allowance for other receivables	<u>(1,137)</u>	<u>(1,357)</u>
	<u><u>7,892</u></u>	<u><u>5,637</u></u>

(c) Prepayments

	2022 HK\$'000	2021 HK\$'000
Prepayments to		
– third parties	12,025	28,685
– related parties	<u>331</u>	<u>441</u>
	<u><u>12,356</u></u>	<u><u>29,126</u></u>

11 NOTES RECEIVABLE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank acceptance bills	<u>11,820</u>	<u>8,581</u>

As at 31 December 2022, notes receivable amounted to HK\$11,820,000 (2021: HK\$8,581,000) were all bank acceptance bills with maturity dates within 6 months, which are classified as financial assets at FVOCI.

12 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	<u>84,494</u>	<u>99,333</u>
Other payables and accruals		
– Accruals for sales promotion expenditures	36,362	55,735
– Amount due to a shareholder of the Company (<i>Note (a)</i>)	42,404	42,404
– Other taxes payables	23,397	13,665
– Payroll payable	29,419	32,635
– Others	<u>35,874</u>	<u>40,085</u>
	<u>167,456</u>	<u>184,524</u>
	<u>251,950</u>	<u>283,857</u>

- (a) The amount due to a shareholder of the Company, Tianjin Food Group Company Limited, relating to the previous year's emoluments to certain directors. The amount due to the shareholder is unsecured, interest free and has no fixed terms of repayment.
- (b) The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.
- (c) The ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0-30 days	29,126	22,000
31-90 days	966	6,886
91 to 180 days	1,906	820
Over 180 days	<u>52,496</u>	<u>69,627</u>
	<u>84,494</u>	<u>99,333</u>

13 CONTRACT LIABILITIES

	2022 HK\$'000	2021 <i>HK\$'000</i>
Advances received from distributors	<u>27,066</u>	<u>53,882</u>

14 PROVISIONS FOR CONTINGENT LIABILITIES

	2022 HK\$'000	2021 <i>HK\$'000</i>
Provision for compensation to employees	<u>-</u>	<u>487</u>

In May 2022, the three employees' arbitrations against the subsidiaries of the Company regarding the termination of their employment contracts were closed with no compensation by the Group.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2022 as set out in the announcement of annual results have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on the announcement of annual results.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The revenue of the Group for the year ended 31 December 2022 decreased by 21% to HK\$241.4 million (2021 – HK\$306.0 million) and the Group's profit attributable to the owners of the Company decreased to HK\$16.3 million (2021 – HK\$32.8 million).

Earnings per share of the Company (“**Share**”) was HK\$1.31 cents per Share (2021 – HK\$2.63 cents per Share) based on the weighted average number of 1,248 million Shares (2021 – 1,248 million Shares) in issue during the year. There was no potential dilutive Share for the year ended 31 December 2022.

The decrease in profit attributable to the owners of the Company in 2022 was mainly attributable to drop in gross profit resulting from a decrease in the revenue of the Group for the year. The decrease in revenue was primarily due to i) control and lockdown measures imposed on consuming places as a result of the resurgence of the novel coronavirus pneumonia (“**COVID**”) in various cities in the People's Republic of China (the “**PRC**”); and ii) adverse impact of the COVID pandemic on consumer sentiment in 2022.

Financial review

Revenue

Revenue of the Group represents proceeds from sale of wine products. The Group's total revenue decreased from approximately HK\$306.0 million in 2021 by 21% to approximately HK\$241.4 million in 2022. The drop in revenue was mainly attributable to the decrease in sales volume of products, especially middle to high end wine products during the year. Following the containment of COVID, the sales revenue improved and turned into a growth in the second half of the year, compared to sales downside in the first half of the year.

The Group's average ex-winery sales price of red and white wine products under the “**Dynasty**” brand during the year slightly increased. The total number of bottles of wine sold decreased to approximately 9.1 million in 2022 (2021 – approximately 11.9 million). With consumers' growing interest of white wine products of the Group, especially in coastal regions of the PRC, sales of white wine products transcended red wines products as the Group's primary revenue contributor for the first time, accounted for approximately 51% of the Group's revenue for the year (2021: 40%), demonstrated the Group's effort in capturing growth opportunities in the dry white wine market over the years.

Cost of sales of goods

The following table sets forth the major components of the cost of sales of goods (before impact of impairment allowance of inventories) for the year:

	2022	2021
	<i>%</i>	<i>%</i>
Cost of raw materials		
– Grapes and grape juice	46	46
– Yeast and additives	2	2
– Packaging materials	20	21
– Others	2	1
	<hr/>	<hr/>
Total cost of raw materials	70	70
Manufacturing overheads	20	19
Consumption tax and other taxes	10	11
	<hr/>	<hr/>
Total cost of sales	100	100
	<hr/> <hr/>	<hr/> <hr/>

The principal raw materials required by the Group in producing wine products are grapes and grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, labels, corks and packing boxes. During the year, the cost of grapes and grape juice was the key component of cost of sales and accounted for approximately 46% of the Group's total cost of sales, and remained stable as compared with 2021.

Manufacturing overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses in relation to production. During the year, manufacturing overheads as a percentage of cost of sales kept stable as compared with 2021.

Gross profit margin

Margin is calculated based on cost of sales inclusive of consumption tax and gross sales. The overall gross profit margin slightly decreased to 38% in 2022 (2021: 40%), mainly as a result of an adjustment in product sales mix to more medium-end mass market wines products.

The gross margin of red wine products and white wine products in 2022 were 32% and 44% respectively (2021 – 37% and 47% respectively).

Other income, other gains and losses – net

Other income, other gains and losses mainly comprises of write-off of payables with long ageing and government grants related to enterprise development.

Other income, other gains and losses for the year ended 31 December 2022 represented a net gain of HK\$9.3 million (2021 – approximately HK\$8.0 million). The increase in net gain was mainly due to the write-off of payables with long ageing netting off with the decline in government grants and provision for compensation to employees during the year.

Distribution costs

Distribution costs principally include advertising and market promotion expenses, storage charges in connection with the sales of wine products, salaries and related personnel expenses of the sales and marketing functions and other incidental expenses. During the year, distribution costs accounted for approximately 18% (2021 – 16%) of the Group's revenue. The increase in distribution costs to revenue ratio was mainly due to a reduced revenue in the year. During the year, the Group continued to promote and market its brand and products effectively through a range of joint promotions with local distributors, print and outdoor advertisements, wine dinners, wine tasting events, digital communication, event sponsorships and exhibitions. The Group will ensure its promotional strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses comprise salaries and related personnel expenses for administrative, finance and human resources departments, legal and professional fee, depreciation and amortisation expenses, impairment allowance and other incidental administrative expenses.

During the year, administrative expenses as a percentage of the Group's revenue accounted for approximately 19% (2021 – 17%) of the Group's revenue. The increase in ratio was mainly attributable to reduced revenue during the year. The administrative expenses still recorded a decrease compared with 2021 primarily as a result of effective cost control measures and certain savings in travelling and office expenses.

Finance income – net

During the year, there was a decrease in finance income – net, which was mainly due to a decline in bank interest income compared with 2021.

Income tax expense

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

Cash flow

In 2022, operating activities were the Group’s main source of cash outflow.

The change of cash flow from operating activities from net inflow of approximately HK\$12.6 million in 2021 to net outflow of approximately HK\$14.8 million in 2022 was mainly due to the drop in gross profits and increase in cash outflow from working capital during the year.

The decrease in net cash outflow in investing activities from approximately HK\$4.6 million in 2021 to approximately HK\$3.0 million in 2022 was mainly because of fewer purchase of machinery and improvement in facilities during the year.

The net cash outflow from financing activities decreased from approximately HK\$2.1 million in 2021 to approximately HK\$1.9 million in 2022 was primarily attributable to decline of lease payments during the year.

Financial management and treasury policy

For the year ended 31 December 2022, the Group’s revenue, expenses, assets and liabilities were substantially denominated in RMB. The funding from the operations was placed on short-term deposits (denominated in RMB, US dollars or Hong Kong dollars) with authorised financial institutions. The Company would also pay dividends in Hong Kong dollars when dividends were declared, if any. The Company did not implement any hedging or other derivatives against foreign exchange risk. Although the Group’s operations currently would not generate any significant foreign currency exposure, the Group will continue to closely monitor foreign currency movements and adopt prudent measures as appropriate.

Armed with sufficient financial resources and net cash position, the Group had no borrowings and was exposed to minimal financial risk from interest rate fluctuation.

The purpose of the Group’s investment policy is to ensure the investment of uncommitted funds to achieve the highest practicable returns while heeding the need to preserve capital and assure liquidity.

Business review

Sales analysis

A) Distributorship

For the year ended 31 December 2022, the decrease in revenue was primarily due to:

- (a) control and lockdown measures imposed on consuming places as a result of the resurgence of COVID in various cities in the PRC, distribution of wine products was reduced with consumption scenario; and
- (b) adverse impact of the COVID pandemic, coupling with slowdown of economy, on consumer sentiment.

During the year, the Group continued in implementing a sales and marketing reform, as well as product and channel strategies. Following the relaxation of control and lockdown measures, the Group pressed ahead with its marketing campaign showcasing shops, hosting wine tasting events and organising plant visits, so as to keep developing and enhancing its point-of-sale network. The Group held its tasting and business events February, June and November in 2022, during which the Group actively promoted its latest product mix that covered all product lines, and received enthusiastic market response.

The Group has been actively pursuing innovation, embracing the “5+4+N” product strategy, with “N” standing for developing various customised products and continuously creating new products to meet the diverse needs of different Chinese consumer groups. During the year, the Group launched another round of product upgrade. The product upgrade in 2022 entailed the launch of new products more convenient to enjoy, young and chic. Such product upgrade also agreed to the trend of supporting domestic products, with an aim to invigorating the brand, strengthening the deployment of products for young consumers, as well as consolidating the image of Dynasty as a representative domestic grape wine brand.

The Group produced a wide range of more than 100 wine products under the “Dynasty” brand to meet the demands and preferences of different consumer groups mainly in the mass-market segments in the PRC wine market. During the year, the Group launched new medium to high-end products, i.e. Dynasty Chinese Zodiac Commemorative Dry Red Wine for the Ren Yin Year of Tiger, integrating the high quality with the Chinese zodiac culture and the leading rise of Chinese-style fashionable products, and Starlight (星耀) and Years (年華) series targeting at regional customers.

A grape wine series of entry-level prices, Pleasant Color (怡色) targeting at young consumers has been well received since its debut last year. During the year, a gift box had been created for the collection, making it an ideal gift option for gatherings with family and friends, and for festive celebrations. In addition, the ready-to-drink series is designed to be easy to pair and goes well with hot pot, fusion and private kitchen dishes etc., thus is popular among the younger generations. With such attributes and support of new media marketing on social media platforms including RED (小紅書 app), Kuai (快手 app), Tiktok (抖音 app) and Weibo, the series has ever become a hot choice on the Internet.

During the year, the Group also had launched the innovative 373ml and 180ml Dynasty dry red and semi-dry white series, to tap into the young consumer market. Unlike the traditional 750ml bottles the Group offers, the new sizes come with screw caps to make them more convenient to enjoy and better suit the lifestyle of the younger generations “Enjoy the wines anytime, anywhere”. The 180ml wine comes in boxes of six, giving the younger generations another choice of drinks in gatherings on top of beers. As for the 373ml size, with online-to-offline (O2O) platform support, consumers can scan the product QR code and get rewards, thus not only promoting interaction between consumers and the brand, but also giving consumers direct benefits and surprise offers, and ultimately allowing the Group’s products to reach wider consumer groups.

The Group also held its new products tasting and business fair events, and took part in the 105th China Food & Drinks Fair (Food & Drinks Fair) held in Chengdu in November 2022, during which the Group actively promoted its latest product mix that covered all product lines. These events received enthusiastic response from distributors.

Moreover, the Group sold chateau wine imported from France and other foreign branded wines in the PRC wine market through the Group’s existing distribution network to introduce some classic “old world” and “new world” varieties to cater for a market niche preferring the taste of foreign premium wines.

The Group believes that the trend of increasing wealth and the disposable income of consumers for a medium-term, as well as the rise of Chinese-style fashion, would steadily benefit the demand of domestic-made Dynasty wines.

B) Online sales

The e-commerce team of the Group started insourcing to operate online stores on the traditional e-commerce platforms, such as JD.com (京東商城), Tmall (天貓商城) and Pinduoduo (拼多多) for product sales, as well as comprehensive innovation on its brand, product categories, and business systems, procedures and models via new retail platforms, including Weibo, RED (小紅書 app), Kuai (快手 app) and TikTok (抖音 app) other than cooperation with distributors during the year. Such efforts facilitated the Group’s autonomous brand communications so that it could continue to gain the attention of mainstream consumer groups and demographic segments, and enhance effective market penetration of the Group’s products targeted at young consumers. The e-commerce team also actively cultivate e-commerce live broadcasting talents to further expand its sales channels so as to build up a new customer base.

The Group strategically plans and continues putting resources for improvement of the online sales channels and optimisation of online stores interface so as to capture the change of customer consumption behavior in the PRC. During the year, apart from the existing exclusive products for e-commerce platforms, the Group had also been developing emerging marketing channels, such as live broadcasting. To strengthen brand awareness, the Group has launched a “Chinese style” edition showing its name in Chinese “王朝”, to bring home its position as a domestic grape wine brand and also to attract mainstream e-commerce consumers who love domestic makes and favours. The Group promotes the series via e-commerce channels and, on top of presence on mainstream e-commerce platforms, efforts have been made to exploit new retail channels using such supplementary promotional means as live streaming or videos. The Group believes that the online platform not only serves as a business-to-customer trading platform between the Group and the consumers, but also an additional marketing and promotion channel for the brand. Thus, the platform should enhance the overall business potential of the Group.

Research and Technology

The Group is committed to maintaining high standard of research and technology which are essential to the sustainable growth of the Company. The post-doctoral work station in the National-level Technology Centre of the Group was set up for researching the selection of distinctive muscat yeast in order to brew more mellow and delicious wines. The centre has also set up a winemaking and wine tasting studio which has carried out rounds of wine introduction and tasting activities to date, with event focuses covering floral and fruit wine, sparkling wine, white wine, red wine and brandy. These activities have further broadened the professional competency of the studio staff and enable Dynasty's employees to gain a greater and in-depth understanding of wine products, so as to improve their technological and new product development capabilities. The new premises at the National-level Technology Centre opened in October 2021 further promote the Group's research and development of new products as well as new winemaking techniques.

Supplies of grapes or grape juice

Production of quality wines greatly depends on a sufficient supply of quality grapes or grape juice. Currently, the Group has more than 10 major grape juice suppliers with whom the Group has enjoyed long-term relationships, mainly located in Tianjin, Hebei, Ningxia and Xinjiang. Ensuring reliable supplies of quality grapes and grape juices to meet the production needs of the Group's growing business is a high priority of the Group. Thus, the Group continues to actively work with vignerons to enlarge their existing vineyards in order to enjoy better economies of scale and equip their vineyards with state-of-the-art techniques for assuring quality. For super and ultra-premium wines, vignerons have adopted a disciplined approach to limiting harvest yields in order to deliver higher quality grape. To optimise the supply network, the Group kept identifying new suppliers that comply with the quality requirements, and the Group conducted thorough tests on their grape juices before orders were placed. These procedures ensure the Group to procure quality grapes and grape juice supplies and also minimise the effect of bad harvests interrupting production.

Following the master purchase agreement signed with Tianjin Food Group Company Limited ("**Tianjin Food**"), the controlling shareholder of the Company, which expired at the end of 2022, the procurement of grapes and grape juice (including unprocessed wines) from Tianjin Food not only maintained and stabilised the quality of grapes and grape juice (including unprocessed wines), but also reduced the Group's lead time and cost of transportation and storage. However, in the near future, the Group plans to reduce the related procurement and increase the direct sourcing of quality grapes harvested from Ningxia and Xinjiang regions, and processing of grape juices locally in accordance with the guidance and advices provided by the Group in the process of pressing which can also better ensure that the quality and freshness of grape juice (including unprocessed wines) meets the Group's standard.

Production capacity

As at the end of December 2022, the Group's annual production capacity maintained at 50,000 tonnes (2021 – 50,000 tonnes). Such capacity is sufficient for the Group to promptly response to the market demand and provides a platform for sustainable earnings growth.

Prospects and future plans

Looking ahead to 2023, the Group will focus on product quality, reinvent consumption scenarios and strive to guide market spending, while continuing to build Dynasty into a brand representative of Chinese wines and its wines into iconic products. The Group will also be persistent in meeting consumer demand by pursuing innovations for its wine series. Meanwhile, the Group will invest more resources in brand development to fully vitalise its brand and drive the development of its major products, with the aim of bringing Dynasty's superior wines to more consumers in the PRC.

As one of key players in domestic wine market in the PRC, the Group will further strengthen presence in Ningxia and Xinjiang to secure the supply of quality grapes and grape juice, and plan for the development of a winery nearby Eastern foot of Helan Mountain in Ningxia, integrating pressing, fermentation, processing, testing and research and development as a whole, with an annual production and processing capacity of 5,000 tonnes. The plan would be funded by the Group's internal resources and/or bank borrowings. The winery would become a new long-term and stable economic growth point of the Group and help the regional presence and layout of Dynasty wines, as well as in line with the overall planning and industry planning for the development of China's wine industry.

In view of the dismantlement of pandemic control measures in December 2022 and subsequent normalization of consumption activities in the PRC, the Board believes that business and sales of the Group will recover and resume growth in 2023, and the Group will continue to proactively develop the market, improve quality and boost sales volume, under the policy support for the expansion of consumption in the PRC.

On 17 March 2023, Mr. He Chongfu was appointed as executive director and general manager of the Company in place of Mr. Li Guanghe who has tendered his resignation of above positions with effect from the same date. Save disclosed above, no significant events have taken place after the year ended 31 December 2022 to the date of this announcement.

Human resources management

Quality and dedicated staff are the most important assets of the Group. The Group strives to ensure a strong team spirit among its employees so that they identify and contribute in unison to its corporate objectives. To this end, the Group offers competitive remuneration packages commensurate with market practices and industry levels, and provides various fringe benefits including training, medical and insurance coverage as well as retirement benefits to all employees in Hong Kong and the PRC. The Group is committed to staff training and development to support the need of the business and individuals, so employees are encouraged to enrol in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group has reviewed and adjusted its human resources and remuneration policies, especially the performance-based bonus award, with reference to local legislation, market conditions, industry practice and achievements of the Group's targets as well as the performance of individual employee.

The Group employed a work force of 242 (including directors) (2021 – 231) in Hong Kong and the PRC as at 31 December 2022. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2022 amounted to approximately HK\$65.1 million (2021 – HK\$68.5 million). During the year, the staff costs decreased mainly as a result of reduction of sales based compensation.

Liquidity and financial resources

The liquidity and financial position of the Group remained solid as the Group continued to adopt a prudent approach in managing its financial resources. As at 31 December 2022, the Group's cash and short-term deposits amounted to HK\$160.7 million (2021 – HK\$196.1 million). The decrease was mainly attributable to settlement of trade and other payables during the year, as well as the effect of exchange rate changes on cash and cash equivalents. It has sufficient financial resources and an adequate cash position for satisfying the working capital requirements of business development, operations and capital expenditures. New investment opportunities, if any, will be funded by the Group's internal resources, borrowings or proceeds from issue of shares, if any.

Capital structure

The Group had cash and liquidity position of HK\$160.7 million (2021 – HK\$196.1 million) as at 31 December 2022, reflecting its sound capital structure. The Group expects its cash to be sufficient to support its operating and capital expenditure requirements in the foreseeable future.

The Group also monitored capital on the basis of the liability-to-asset ratio. As at 31 December 2022, the Group's gearing ratio (expressed as total liabilities divided by total assets, in percentage) was approximately 53% (2021 – 57%). The Group's gearing ratio decreased and maintained at a sound level.

As at 31 December 2022, the market capitalisation of the Company was approximately HK\$436.9 million (2021 – approximately HK\$505.5 million).

Capital commitments, contingencies and charges on assets

As at 31 December 2022, there was no capital expenditure contracted for by the Group at the end of the year (2021: nil) but not yet incurred and there was no charge on assets of the Group.

The Group had no contingent liabilities as at 31 December 2022, and the labour arbitrations related to the contingent liabilities recorded in 2021 were closed in May 2022 (see note 14).

Material acquisitions and disposals of subsidiaries, associates and joint ventures

For the year ended 31 December 2022, the Group had not made any material acquisitions or disposal of subsidiaries, associates or joint ventures.

Principal risks and uncertainties

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. The Group will further improve its risk management, closely monitor the following risks and seek to adopt responsive measures:

1. *Market risks*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

2. *Commercial risks*

The Group is facing various competitions by domestic and overseas companies in the wine industry, and also finds that a number of imported wines competitors entered the markets, while local competitors grab the market with lower selling prices and counterfeit wines. To maintain the Group's competitiveness, it continues to strengthen the brand value, quality of products and research and development to launch new products or products with distinctive characteristics, such as festival featured products to diversity product mix; and product series which are focused on the entry-level product price range and targeted at young consumers, opening a new chapter for the Group's product rejuvenation strategy.

3. Operational risks

The production lines of the Group have been in use for years, resulting in ageing of certain machines and a decline in productivity. Failure to respond effectively to the decline in capacity may affect the sales plan of the Group. The production department has continuously researched to upgrade the technology of the production lines and to introduce suitable equipment to enable the Group to maintain a high level of production so as to cater for the customers' demand.

Resurgence of the COVID pandemic in various cities in the PRC continues in the year, consumption scenario and sales activities are adversely affected due to control and lockdown measures imposed by local governments, having a direct impact on the sales volume of wine products. To reduce the risk, the Group keeps implementing optimised channel and product strategies following the relaxation of measures by developing and enhancing its point-of-sale network (both offline and online) and launching new products with various customer bases coverage.

The Group's operations are subject to a broad range of laws and regulations governing various matters. In particular, the continuance of the Group's operations depends upon compliance with applicable environmental, health and safety and other regulations. The Group's in-house lawyer assists in identifying, monitoring and providing support to identify and manage legal risks across the legal and seek external legal advisers as and when appropriate.

4. Loss of distributors/customers

Loss of distributors/customers could adversely affect the Group's business. The Group keeps in close touch with its distributors/customers and markets and focuses effort on delivery high quality wines to them in order to meet their purchase intention and satisfaction.

Environmental policies and performance

The Group is fully aware of the importance of the environmental sustainability throughout its business operations. As a responsible corporation, the Group strives to ensure minimal environmental impacts by carefully managing its pollutant emissions, energy consumption and water usage level, including the establishment or upgrading of heating boiler and energy-saving transformer, sewage station expansion and other initiatives. The Group promotes environmental protection by raising the employees' awareness of resources saving and efficient use of energy, aiming at reducing resources consumption and saving costs which are beneficial to the environment and meet the commercial goals of the Group.

Compliance with laws and regulation

The Board places emphasis on the Group's policies and practices on compliance with legal and regulatory requirements. External legal advisers are engaged to ensure transactions and businesses performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time. The Group continues to commit to complying with the relevant laws and regulations such as the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and other applicable laws and regulations. Based on the information available, the Directors took the view that during the year ended 31 December 2022, the Group was not aware of any non-compliance of the relevant laws and regulations that had a significant impact on the Group.

Dividend

The Directors did not recommend the payment of any final dividend to the shareholders of the Company (the “Shareholders”) for the year ended 31 December 2022.

Purchase, sale or redemption of the Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any Shares during the year ended 31 December 2022.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors’ securities transactions (the “Model Code”). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors’ securities transactions throughout the year ended 31 December 2022.

Compliance with the Corporate Governance Code and Corporate Governance Report

The Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the “Code”) set out in Appendix 14 to the Listing Rules for the year ended 31 December 2022. The current practices will be reviewed regularly to follow the latest practices in corporate governance.

Audit Committee

During the year ended 31 December 2022, the Audit Committee comprised three independent non-executive Directors who together have substantial experience in fields of auditing, legal matters, business, accounting, corporate internal control and regulatory affairs. The Audit Committee has reviewed the Group’s financial statements for the year ended 31 December 2022 in conjunction with the Company’s auditor and discussed the matters concerning the internal controls and risk management (including environmental, social and governance risks) system of the Group.

Publication of annual results and annual report on the website of the Company and of the Stock Exchange

This annual results announcement, required by Appendix 16 to the Listing Rules, is published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange. The annual report of the Company for the year ended 31 December 2022, which contains the detailed results and other information of the Group for the year ended 31 December 2022 required pursuant to Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Company (www.dynasty-wines.com) and the Stock Exchange in due course. Further announcement will be made by the Company as and when appropriate.

Annual general meeting

The notice of the annual general meeting (“AGM”) will be published on the Company’s website and the Stock Exchange’s website and sent to the Shareholders in due course after the date of the forthcoming AGM has been determined.

Acknowledgement

The chairman of the Board would like to take this opportunity to acknowledge the support of the Board members and to commend them for their sage guidance and the enthusiasm they have demonstrated.

The chairman of the Board would also like to express my sincere gratitude to our valued Shareholders, customers, distributors, grape growers, suppliers, business associates and all other stakeholders who have supported us through the years.

Heartfelt thanks also must go to our staff and the management team who have shown great dedication and teamwork throughout the year.

By order of the Board
Dynasty Fine Wines Group Limited
Mr. Wan Shoupeng
Chairman

Hong Kong, 28 March 2023

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Wan Shoupeng, Mr. He Chongfu and Mr. Huang Manyou, three non-executive Directors, namely, Mr. Heriard-Dubreuil Francois, Mr. Wong Ching Chung and Mr. Robert Luc, and three independent non-executive Directors, namely, Dr. Zhang Guowang, Mr. Yeung Ting Lap Derek Emory and Mr. Sun David Lee.